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7 JAN 1974

MEMORANDUM FOR THE RECORD

SUBJECT: Memorandum for DD/L (Draft) Containing Recommendations
of PPA/PRA Study Group

1. While each alternative to the present system of Financial Property Control deserves a complete analysis, we are in no position to accept a complete change of systems without considering beforehand the effects of such change both direct and indirect. "Direct funding" may well be determined to be the best course of action; however, we must look at probable problem resolution prior to system adoption.

2. The objective of this memorandum is to present a preliminary analysis of the "direct funding" recommendation as it can affect the management of this Agency's materiel assets. Initially, we are concerned with a differentiation between what I shall refer to as "captive" and "open" stock.

a. Captive Stock: Those items for which materiel management and technical cognizance is vested in one office, and only a single activity is authorized to approve stock draw-down.

b. Open Stock: Those items which are utilized by two or more requisitioning activities and for which materiel management rests with the Office of Logistics, and technical cognizance may be exercised by any appropriate office so designated.

I believe it to be imperative that we accept the definitions above if we expect any degree of success in inventory budgeting and the follow-on facets of "direct funding." Even so, while materiel management and the requisitioning authority would be clearly defined, there would be constraint to indiscriminate stock drawdowns.

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*(Stocks reserved for
Particular Agency components)*

3. In addition to the "captive" and "open" stock concept, materiel management would not relate to stock allocations. Stock allocations would then only relate to ~~the technical cognizance assigned~~. This, in fact, represents the adoption of the "Single Manager" concept. With the reorganization of the Supply Division, one of the first orders of priority will be to purify the materiel management process. This, of course, will include restructuring the data base from an analytical point of view. By this, I mean stock allocations will only then reserve stock quantities for particular Agency components while management and technical cognizance will be indicated by the appropriate code.

4. Currently, our Financial Property Accounting system (FPA) is controlled by the Property Procurement Allotment (PPA)/Property Requisitioning Authority (PRA) principle. It is well recognized that in many instances it has outlived its usefulness. On the other hand, without some form of control, FPA would become a worthless set of debits and credits so far as materiel management is concerned. It must be remembered that both financial as well as quantity control of property is required under the "Government Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies." Section 12.5 states in part, "Accurate and reliable financial and quantitative information on property resources for use by internal management and for preparing financial reports for the Congress and others can be obtained only from a properly designed and operated system of accounts and related procedures." While our relief from audit by the General Accounting Office (GAO) under PL110 carries certain exemptions, we must live within the intent and maintain a system of checks and balances of all resources, funds, and property alike.

5. There are certain facts which dictate we embark on an exhaustive analysis which will reflect "cause and effect" of any new or modified system we recommend for financial and property control of Agency resources. Additionally, we must accept within any such system a definitive control on materiel drawdown and the authorization for action. Without control over issues, we will have no system of property control from

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a consumption point of view. Knowledge after the fact on requirement levels will mean multiple adjustment prior to the expenditure year and most assuredly re-allotment of funds during the expenditure year.

6. We can employ inventory budgeting under our present system. The elements of a budget determination will encompass the expenditure year "use factor" (PRA) as well as "leadtime," "project status," "demand," and other consideration in developing procurement requirements. This practice has much precedent in the Defense Department procurement bill which, of course, amongst other things includes monies to underwrite consumer funds outside the stock fund system.

7. In summation, I believe we can accept inventory budgeting on "captive" stock now and commence a "hard look" at our present system in determining our future course of action.

cc: Mr.  EO/OL
Mr. PMS/OL
Ms. B&FB/OL
Mr. OSB/SD/OL
Mr. - P&PS/OL